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Form ADV Part 2A: Firm Brochure

March 30, 2012

This Brochure provides information about the qualifications and business practices of Capital Royalty, L.P. ("Adviser"). If you have any questions about the contents of this Brochure, please contact us at the above telephone number or via email at info@capitalroyalty.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Capital Royalty, L.P. is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Capital Royalty, L.P. also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On March 31, 2011 Capital Royalty, L.P. (Adviser) filed with the United States Securities and Exchange Commission (SEC) Form ADV Part 2A, also known as the Brochure, in accordance with new regulations regarding information and disclosures not required in previous brochures. Following this filing, the Adviser provided all clients a complete copy of the Brochure containing information about our qualifications and business practices. Beginning in 2012, investment advisers are required to provide clients with a summary of material changes since the last Brochure.

Accordingly, we are making you aware of two material changes since our last Brochure. A summary of the changes follows.

<u>Item & Page</u>	<u>Description</u>	<u>2011 Brochure</u>	<u>2012 Brochure</u>
Item 4, page 1	Assets Managed		
	Total:	\$291.1 million	\$382.1 million
	Discretionary:	\$233.1 million	\$338.9 million
Item 4, page 1	Professional employees	12	11

The Adviser will continue to deliver information about our qualifications and business practices to clients on at least an annual basis. We will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We will further provide other ongoing disclosure information about material changes as necessary.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Our Brochure may be requested by emailing us at info@capitalroyalty.com or via telephone at 713-209-7350.

Additional information about Capital Royalty, L.P. is also available via the SEC's website at www.adviserinfo.sec.gov. The SEC's website also provides information about any persons affiliated with Capital Royalty, L.P. who are registered, or are required to be registered, as investment adviser representatives of Capital Royalty, L.P.

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Brochure Supplement(s)

Item 4 – Advisory Business

The Adviser has been in business since 2003 and provides investment advisory services to private equity partnerships (as described below) in the acquisition and management of a portfolio of privately owned royalty interests in the healthcare sector. (Such private equity partnerships are referred to as a “Fund” or collectively as “Funds”). These interests are entitlements to royalty payments between a Licensor and a Licensee from the sale of a healthcare product and/or performance-related and other payments based upon a percentage of healthcare product revenue. The Adviser manages approximately \$382.1 million of which approximately \$338.9 million is on a discretionary basis.

An affiliate of the Adviser is the general partner in several Funds; please see Item 10 for more information regarding this relationship. In addition, an affiliate of the Adviser is the general partner or investment adviser in other Funds that do not represent a significant portion of the assets managed by the Adviser. The Adviser provides investment management services to the Funds in building and managing a portfolio of royalty interests, primarily in healthcare products. This portfolio of investments covers a range of market segments, including pharmaceuticals and biotechnology products. The Adviser may, based on portfolio management objectives for a particular account, invest in assets other than those described above, including products which have yet to be approved for clinical use or other asset classes.

The Adviser investment team currently employs 11 professionals including internal legal, accounting and compliance personnel. Senior members of the investment team include: Charles Tate, who founded the Adviser in 2003 after a successful 35-year career in investment banking and private equity; Nathan Hukill, who was a significant investor in royalty interests while managing a \$4.5 billion healthcare portfolio at Highland Capital Management, L.P. and Michael Weinmann, who was responsible for sourcing and structuring \$3.3 billion of royalty monetizations in his previous role as Co-Head of the Intellectual Property and Royalty Finance group at Morgan Stanley & Co. Incorporated. More information about these and other investment personnel can be found in the Brochure Supplement (Form ADV Part 2B). Charles Tate is also the principal owner of the Adviser. More information regarding ownership of the Adviser can be found in Form ADV Part 1, Schedule A.

The Adviser may also, from time to time, establish, on a transaction-by-transaction basis, pooled investment vehicles through which certain persons may invest alongside one or more Funds in a particular investment opportunity (each such vehicle a “Co-Investment Vehicle”). As a general matter, each such Co-Investment Vehicle exits its investment in the particular investment opportunity at substantially the same time (and on substantially the

same terms) as the applicable Fund(s) that are also invested in that investment opportunity.

Additionally, the Adviser may also organize and serve as general partner (or in an analogous capacity) to certain other “feeder” vehicles (each such vehicle, a “Feeder Vehicle”) organized to invest exclusively in a Fund and/or alternative investment vehicles (each, an “Alternative Investment Vehicle”) organized to address, for example, specific tax, legal, business, accounting or regulatory-related matters that may arise in connection with the transaction or transactions.

The Adviser’s advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating and making investments on behalf of Funds, managing and monitoring the performance of such investments and disposing of such investments. The Adviser may serve as the investment adviser or general partner to the Funds in order to provide such services.

The Adviser provides investment supervisory services to each Fund pursuant to investment management or portfolio management agreements (each an “Advisory Agreement”).

The terms of the advisory services to be provided to a Fund, including any restrictions on investments of certain types of securities, are established by the Adviser, as modified by negotiations with investors in the applicable Fund, and set forth in such Advisory Agreement, offering documents, organizational documents and/or other documentation received by each investor prior to the investment in such Fund. Once invested in a Fund, the investors cannot impose restrictions on the types of securities in which such Fund may invest.

Item 5 – Fees and Compensation

In general, the Funds’ respective Advisory Agreements provide that the Adviser will receive a 2% annual management fee (the “Management Fee”) based, during the Funds’ investment period, upon total investor commitments, and thereafter upon 2% of total invested capital, as defined in the limited partnership agreement (the “Partnership Agreement”), subject to further reduction starting on the seventh anniversary of the initial closing of the Funds, and depending on the size of capital commitments of investors in the Funds. Under the terms of each Advisory Agreement, the Management Fee is payable quarterly in advance, prorated for the actual number of days if less than three months; in such a case, the Adviser would return the unearned portion to the Fund. The Adviser is required to apply 80% of certain

fees that it collects from third parties in connection with investments by the Funds towards a reduction in the Management Fee.

In addition, each Fund's Partnership Agreement generally provides that the general partner is entitled to receive carried interest or a performance fee equal to 20% of distributions after the limited partners have received a preferred return of 8% per annum of their investment in the Fund. Each Fund will terminate 10 years from the final closing but may be extended for up to two more years at the discretion of the general partner and thereafter with the consent of the limited partners. Each Fund may be terminated at any time prior to its stated termination at the election of limited partners owning at least 80% of the limited partnership interests and two-thirds in interest of the limited partners. Limited partners may elect to dissolve the Fund under certain circumstances set forth in the Partnership Agreement. Except in limited circumstances, no limited partner may voluntarily withdraw from a Fund.

The specific manner in which fees are charged by the Adviser is established in each client's written Advisory Agreement and/or Partnership Agreement, the terms of which may differ from those described above. The Adviser may negotiate a specific fee arrangement with a particular client pursuant to a side letter or other account agreement.

The Adviser's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Funds. Clients may incur certain charges imposed by custodians, brokers, third party investment advisers and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. If the Fund invests in another pool, there may be two levels of fees. The specific fees and expenses borne by a client are set out in the client's written Advisory Agreement and/or Partnership Agreement, the terms of which may differ from those described above. Neither the Adviser nor any supervised persons accept compensation for sales of securities or other investment products.

Item 12 further describes the factors that the Adviser considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

Item 6 – Performance-Based Fees and Side-By-Side Management

In some cases, the Adviser or its affiliates have entered into performance fee arrangements with qualified clients; such fees are subject to individualized negotiation with each such client. The Adviser will structure any performance or incentive fee arrangement subject to

Section 205(a)(1) of the Investment Advisors Act of 1940 (the "Advisors Act") in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. Performance-based fee arrangements may create an incentive for the Adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. The Adviser has procedures designed and implemented to ensure that all clients are treated fairly and equally over time, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

With respect to each Fund other than Co-Investment Vehicles, a portion of the profits of each Fund is allocated to the capital account of its general partner, if any, as "carried interest" (an "Incentive Fee"). Each general partner of a Fund is a related person of the Adviser.

The payment of some, but not all, Funds of an Incentive Fee (or the payment of Incentive Fees at varying rates) may create an incentive for the Adviser to disproportionately allocate time, services or functions to Funds paying an Incentive Fee (or Funds paying Incentive Fees at a higher rate), or allocate securities to such Funds. With respect to Funds that do not pay Incentive Fees, such as the Co-Investment Vehicles, this conflict is largely mitigated since Co-investment Vehicles invest alongside one or more Funds in pre-set amounts. The Adviser periodically reviews the time and services being devoted to the Funds to ensure that the necessary resources are being allocated to each Fund. Please see Items 10 and 11 below for additional information relating to how conflicts of interest are generally addressed by the Adviser.

Item 7 – Types of Clients

The Adviser provides investment management services to certain qualified individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, municipalities, private investment funds, trust programs, sovereign funds, foreign funds and other U.S. and international institutions. Funds typically have a minimum investment amount. This amount, which may vary from Fund to Fund, may be waived by the Adviser.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

The Adviser's investment strategy is to invest in royalties on biopharmaceutical products. Investments are selected through a proprietary screening and due diligence process which utilizes the knowledge and skills of the Adviser's investment professionals, healthcare industry contacts and consultants, published sales and technical information and an advisory committee composed of outside healthcare industry veterans.

Investing involves risk of loss that clients should be prepared to bear. These investments are not suitable for all investors and are intended for sophisticated investors who can accept the risks associated with the Adviser's investment program. Among the risks to be considered are that the investments will be concentrated in the healthcare industry and are not expected to provide diversification across industries. Clients should be aware and seek diversification by including other types of investments in their portfolio.

Distributions to investors from a Fund's investments will be dependent on the revenue levels achieved by the products underlying each royalty interest (the "Target Products"). The risks of investing in these securities include the risks of investing in the underlying industry. In addition, royalty interests are currently not widely traded. A Fund may not be able to sell the investments if it wants to do so or at the prices at which they are valued by the Fund. Each security will include different risk factors specific to that transaction, although they will generally be subject to some or all of the risks described below.

Risks Associated with Product Competition

Each Target Product is subject to competition from alternative products or procedures that are now available or may in the future become available. The pharmaceutical industry is highly competitive and rapidly evolving. Target Products face competition from other products that may be approved for the same indications as those of the Target Products, from off-label use of products approved for other indications, from improvements to existing products, any of which may cause a Target Product to become more expensive than its competitors or obsolete, thereby decreasing the value of or rendering worthless the expected revenue stream on that Target Product.

Competitors may develop technologies which are, or in the future may be, the basis for products that will directly compete with or reduce the market for a Target Product, including the development and marketing of generic substitutes for a Target Product. Competition from fully integrated and more established pharmaceutical companies is intense and is expected to increase. Restrictions on the ability of a collaborative partner to develop and market a product that is competitive with a Target Product are generally limited. Companies with competing products may have significantly greater resources than

the company supporting the Target Product. Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with larger and more established pharmaceutical companies. Academic institutions, governmental agencies and other public and private research organizations also conduct research, seek patent protection and establish collaborative arrangements for clinical development and marketing, which can result in such competing products. These factors may materially adversely affect the royalty interests held by the Funds.

Sales of the Target Products and the ability of the licensees responsible for the development, production, marketing and sale of the Target Products (the “Licensees”) to maintain their competitive positions are partly dependent on the success of the Licensees’ respective marketing efforts. These efforts often rely, in part, on the strength and reputation of a Target Product’s brand and underlying trademarks, trade names and related intellectual property. A Licensee’s activities both in marketing the Target Products and in protecting its intellectual property are generally outside the control of the Funds and the Adviser. A Licensee’s failure either to market the Target Product actively or to diligently protect its related intellectual property rights could reduce the value of the related royalty interest.

Other competitive factors affecting the market position of Target Products include their effectiveness, side effect profile, manner of administration, price, ease of use, and third-party insurance reimbursement policies.

Risks Associated with Manufacturing and Supply

Pharmaceutical products, and in particular biopharmaceutical products, are manufactured in specialized facilities that require the approval of, and ongoing regulation by, the Food and Drug Administration (the “FDA”) in the United States and, if manufactured outside of the United States, foreign regulatory agencies. With respect to Target Products, to the extent operational standards set by such agencies are not adhered to, manufacturing facilities may be closed or the production of such Target Products interrupted until such time as any deficiencies noted by such agencies are remedied. Any such closure or interruption may interrupt, for an indefinite period of time, the manufacture and distribution of a Target Product.

In addition, manufacturers of such Target Products may rely on third parties for packaging of the Target Products or to supply bulk raw material used in the manufacture of the Target Products. In the United States, the FDA requires that all suppliers of pharmaceutical bulk materials and all manufacturers of pharmaceuticals for sale in or from the United States achieve and maintain compliance with the FDA’s current “Good Manufacturing Practice,” or

“GMP,” regulations and guidelines, and failure to comply could have a material adverse effect on Target Product sales and subsequently the value of the royalty interests.

Licensees generally rely on a small number of key, highly specialized suppliers, manufacturers and packagers. Any interruptions, however minimal, in the operation of these manufacturing and packaging facilities could have a material adverse effect on Target Product sales.

Risks Associated with Dependence on Third Parties to Market Royalty-Generating Products

Revenues from royalty interests will directly or indirectly depend upon the marketing efforts of third parties, particularly large and medium sized biopharmaceutical companies that license the right to manufacture and sell products in exchange for royalty payments to Licensees. These companies may be motivated to maximize income by allocating resources to other products and, in the future, may decide to focus less attention on the Target Products. There can be no assurance that each of these parties has adequate resources and motivation to continue to produce, market and sell the Target Products. Moreover, a license agreement with a Licensee may not have specific sales targets and the Licensee will have exclusive or substantial discretion in determining its marketing plans and efforts. A Licensee may not be restricted from abandoning a licensed product or from developing or selling a competitive product. In the event that a license expires or is terminated, the Funds would be dependent upon the licensor of the license (the “Licensor”) to find another marketing partner. There can be no assurance that another Licensee could be found on favorable terms, or at all, or that the Licensor will be able to assume marketing, sales and distribution responsibility for its own account. These factors may materially adversely affect the royalty interests held by the Funds.

Aside from any limited audit rights relating to the activities of the Licensees that the Funds may have in certain circumstances, neither the Fund nor the Adviser has the rights or ability to manage the operations of the Licensees. Poor management of operations by the Licensees could adversely affect the sales of Target Products and the payment of royalties to the Funds. In addition, Funds have limited information on the Licensees’ operations. While the Funds may be able to receive certain information relating to sales of Target Products through the exercise of the audit rights and review of royalty reports, Funds will not have the right to review or receive certain information relating to Target Products, including the results of any studies conducted by the Licensees or others or complaints from doctors or users of Target Products, that the Licensees may have.

The market performance of the Target Products, therefore, may be diminished by any number of factors relating to the Licensees that are beyond the Funds', the general partner's and the Adviser's control.

Risks Associated with Government Regulation; Drug Withdrawals

The Target Products are subject to extensive and rigorous regulation by United States local, state and federal regulatory authorities and by foreign regulatory bodies. Regulatory clearance of a product is limited to those disease states and conditions for which the product is useful, as demonstrated through clinical studies. Marketing or promoting a drug for an unapproved indication is prohibited. Furthermore, clearance may entail ongoing requirements or post-marketing studies.

Prior to the grant of marketing approvals by the FDA and corresponding regulatory authorities outside of the U.S., most Target Products must undergo extensive investigation and clinical trials to meet stringent safety and efficacy requirements. Also, the manufacturer of a Target Product and its manufacturing facilities are subject to approval, continual review and periodic inspections by the regulatory authorities. As a result, the frequency of product withdrawals is low. Nevertheless, there have been instances when discovery of previously unknown problems with a product, manufacturer or facility have resulted in restrictions on the use or the manufacture of such product, including costly recalls or even withdrawal of the product from the market. Such events, whether voluntary or mandated by a regulatory authority, typically result in an immediate reduction or discontinuation of revenues from the product worldwide. In addition, the manufacturer or marketer of a Target Product may voluntarily withdraw the Target Product from the market for medical, technical, regulatory, commercial or other reasons. If any such an event were to occur, it would likely have a significant and adverse effect on the performance of a particular royalty investment and could have a material adverse effect on the aggregate performance of the investment.

Risks Associated with Pharmaceutical Pricing and Reimbursement

The business and financial condition of biopharmaceutical companies will continue to be affected by the efforts of governmental and third-party payors to contain or reduce the cost of healthcare. In certain foreign markets pricing of prescription pharmaceuticals is subject to governmental control. In the United States there have been, and the Adviser expects that there will continue to be, a number of federal and state proposals to implement similar government control. In addition, managed care in the United States has increased and will continue to exert pressure on pharmaceutical pricing. Changes in U.S. healthcare laws may impact reimbursement policies of the U.S. government as one of the largest consumers of the royalty products and affect payments under the royalty interests. In addition, changes

in U.S. federal and state laws that directly or indirectly impose controls on prescription drugs may negatively impact sales and therefore the ability of the issuer to pay amounts due on the investments.

Additionally, in the pharmaceutical industry, billing and reimbursement processes and potential regulatory changes may cause price erosion and reduce sales of a Target Product. The determination of formularies, or lists of prescription drugs covered by a particular benefit plan, the discounts and pricing under such formularies and the amount of time it takes to obtain favorable formulary status under various plans may impact the sale of a Target Product. In some cases, the patient may have a higher co-payment for a Target Product than for other drugs, including competitors of a Target Product. Additionally, if third-party payors do not consider a Target Product to be cost-effective, they may not reimburse providers of the Target Products or, if they do, it may be at lower levels. If reimbursement for any of the Target Products is adversely changed or is inadequate, healthcare providers may limit how much or under what circumstances they will prescribe or administer such Target Products, which could reduce the use of the Target Products or cause reduction of the price of the Target Products.

Risks Associated with Variability in Royalty Interests Cash Flows

Distributions to investors from the Funds' royalty interests will be tied to the revenue levels achieved by the Target Products. Although revenue projections developed by the Adviser and general partner at the time of each Fund's acquisition may contemplate additional indications and markets than those for which the Target Products are approved at the time of each Funds' acquisition, the time required for these approvals is uncertain and can take a number of years, depending on the type, complexity and novelty of the product, and such approvals may never be obtained. The Adviser and general partner will not have any influence or control over the amount and timing of revenues generated by each product. Such revenues typically vary from quarter to quarter. Although the variations are typically gradual and cyclical, in certain cases they could be material and adverse. This could be the result of many different factors, including, but not limited to, adverse market conditions, including competitive and market demand considerations, lack of market acceptance, obsolescence, safety or efficacy issues, unanticipated regulatory or tax changes, changes in law affecting the enforceability of the licenses and related rights, business disruptions, and other factors that may not be foreseen by the Adviser and general partner at the time of acquisition.

The issuer of royalty interests, and the purchaser of the notes or other securities, is relying on forecasts of future sales of a Target Product that may prove to be inaccurate. There are inherent difficulties in making long-range forecasts, which may be compounded by limited sales history of newer products. Assumptions with respect to material contingencies such

as experience of consumers with a Target Product, sales and marketing efforts, competition, government regulation and reimbursement status may be materially incorrect. If estimates of actual sales of the Target Product are inaccurate, it could negatively impact the Funds' investments.

In the pharmaceutical industry, the payments from royalty interests often rely on milestone payments and/or a royalty stream from an underlying drug which may or may not have received approval of the FDA. If the underlying drug does not receive FDA approval, it could negatively impact the principal and interest payments on, and the value of, the royalty interests.

The Funds have the ability to invest a limited portion of their capital in Target Products that are in late-stage development, but have not yet received approval from the FDA or a corresponding regulatory authority outside the U.S. There is a risk that some of these products will never complete the regulatory process. Such an event would have a significant and adverse effect on the performance of a particular royalty investment.

Royalty rates under a license agreement may be calculated on tiered basis such that rates will be paid at a lower royalty rate until a net sales threshold is passed. In some cases, when net sales exceed the sales threshold, the higher royalty rate may be retroactively applied. To the extent that net sales of a Target Product fall below a relevant threshold, payments on the royalty interests may be delayed or not made. Royalties due under a license agreement may be reduced if a generic drug competing with a Target Product has achieved a certain market share or if related patents or other intellectual property rights supporting the license are found to be invalid or unenforceable. If a counter-party is required to pay damages, legal fees, license fees or other payments to third parties or governments, the payments due to the issuer may be offset or reduced. In any of these circumstances, the ability of an issuer to make payments of principal or interest may be adversely affected.

Risks Associated with Product Liability Claims

Manufacturers or marketers of Target Products could become subject to product liability claims related to the Target Products in the event that the Target Products are misused or the use of the Target Products is alleged to have resulted in undesirable or unintended effects. Additionally, a product liability claim could result in the manufacturer's or Licensor's decision to temporarily or permanently withdraw the Target Product from the market could result in renewed regulatory review. Either such request could materially adversely affect potential returns for the investments.

Risks Associated with Patents and Proprietary Rights

Commercial success of the Target Products depends in part on the ability of the developing and marketing companies or their collaborative partners to obtain patents, successfully defend issued patents against invalidity claims and enforce patents against third parties. The determination of the strength of the patent position involves complex legal and factual questions and, therefore, neither the validity nor the enforceability of a patent can be predicted with certainty. For example, patents may be found invalid if scientific research predating the patent filing reveals that third parties developed the drug or other innovation prior to the patent date, and the publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made. Also, issued patents may be challenged, invalidated or circumvented in other ways. Thus, any Target Product patents that are owned or licensed from third parties may not provide any protection against competitors. Pending patent applications claiming a Target Product may not result in patents being issued. Furthermore, others may independently develop provide the drugs or technologies that same benefit as the patented invention, but do not infringe the patent. The laws of certain foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States.

In addition to patents, the protection of the proprietary position of Target Products may rely on trade secrets and proprietary know-how that may be protected, in part, through confidentiality and proprietary information agreements. These agreements may not provide meaningful protection or adequate remedies in the event of unauthorized use or disclosure of trade secrets or confidential and proprietary information relating to Target Products. Furthermore, trade secrets may otherwise become known to, or be independently developed by, competitors.

Multiple patents can cover one product, and the fact that a Target Product is covered by one or more patents controlled by the Licensor does not fully insulate Target Products from infringing patents held by others. If a Target Product infringes the patents or violates other proprietary rights of third parties, litigation, interference or other administrative proceedings may ensue, which may result in an adverse determination of an infringement claim that may subject the company marketing the Target Product to significant liabilities and restrict or prevent it from the manufacture and sale of Target Products. If the infringement claim is resolved by obtaining a license from the third parties whose intellectual property rights are infringed, such a license may include ongoing royalty

payments which may be offset against the royalties due the Funds. These outcomes may materially adversely affect the royalty interests held by the Funds.

Despite the validity of a patent or a patent application of a Target Product, a regulatory authority may authorize marketing by a third party for a generic substitute for a Target Product, in which case the Target Product would become subject to competition from such generic substitute. The reduction in or absence of research, development, approval and marketing expenses generally permits generic substitutes to be sold at significantly lower prices than branded Target Products. Governmental and other pressures to reduce pharmaceutical costs, including from third-party payers such as health maintenance organizations and health insurers, could result in physicians or pharmacies increasingly using generic substitutes for the Target Products that could adversely affect the returns of the Funds.

Risks Associated with Patent Defense and Enforcement

The right to receive payments in respect of royalty streams depends, in part, on the enforcement of patents, other intellectual property and related licenses in the United States and elsewhere. Moreover, the ongoing existence and enforceability of patents and other intellectual property rights may depend on ongoing maintenance activities of patent owners and others. Pursuant to the Hatch-Waxman Act, regulatory approval to manufacture and sell generic drug substitutes of a patented invention cannot be obtained until the generic manufacturer succeeds at challenging certain patent rights relating to the Target Product. There can be no assurance that any of the patents or other intellectual property rights relating to the Target Products will not be challenged or circumvented by third parties, nor that the Licensees, patent owners, developers, manufacturers, and/or marketers will vigorously maintain, enforce or defend the intellectual property rights, nor that the patents owned by competitors and the intellectual property rights asserted by them will not have an adverse effect on the ability of the manufacturers and marketers to produce and sell the Target Products. There can be no assurance that a court charged with deciding a patent infringement claim will not render a decision that will have an adverse effect on any of the patents relating to the Target Products.

Pursuant to the Supreme Court decision of *MedImmune v. Genentech*, a Licensee need not break or terminate its license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed. Therefore, there can be no assurance that a Licensee paying royalties contributing to the royalty streams will not challenge the underlying patents while continuing to submit such royalty payments.

Patent law relating to claims in biopharmaceutical patents is still evolving both in the courts and through legislation. Changes in case law and legislation may further alter the degrees of protection against the use of a patented invention by others. Various competing legislative proposals for patent reform, including changes to the standards for patentability and limits on the amount of damages that may be recovered by a patentee, and proposed legislation for an abbreviated pathway for follow-on biologics (medicinal products created by biological processes) have been repeatedly introduced. Therefore, the degree of protection under the patents and other intellectual property rights is subject to change.

A portion of the revenue from these investments will depend on Target Product sales in foreign jurisdictions. Foreign jurisdictions have differing procedures for obtaining, maintaining, and enforcing patents, and may provide differing degrees of protection against the use of a patented invention by others. Claim interpretation, validity, enforcement and/or infringement of issued patents may differ from jurisdiction to jurisdiction. Sales of the Target Products in foreign jurisdictions may be subject to additional risks, which may differ in each jurisdiction in which the Target Products are sold and which may include the burdens and costs of compliance with a variety of foreign laws and political and economic instability. Therefore, with respect to Target Products which are marketed internationally, if there is not adequate patent protection in the U.S. or in the foreign country where the relevant Target Product is marketed based on the validity, enforceability or scope of the claims in a patent issued in that country, the ability and willingness to protect the intellectual property rights in such country may be limited.

Third-party competitors may challenge the scope, validity or enforceability of the patents relating to the Target Products in court, and, as a result, the patent owner, developer, manufacturer or marketer may engage in complex, lengthy and costly litigation and, in some cases, may stop selling the relevant Target Product. In some cases, the patent owner, developer, manufacturer or marketer may decline to defend or enforce the patents related to the Target Product. Even if such patent owner, developer, manufacturer or marketer seeks to defend or enforce the patents relating to the Target Product, they may not be successful. Alternatively, competitors may be able to design around such patents and compete with the Target Products.

Risks Associated with Dependence on an Enforceable License Agreement

The royalty interests are often created by a license agreement between the Licensor of the Target Product and another entity, such as a biopharmaceutical company. The seller of the interests may have continuing obligations under the license agreement, such as maintenance and defense of patents, or support in connection with regulatory matters that are outside the control of the Adviser and Funds. Depending on the structure of the transaction between a Fund and the seller and the terms of the underlying license

agreement, the royalty interests may not survive the termination of the license agreement (e.g., in connection with the bankruptcy of the seller or the Licensee, or in connection with a material breach of the license agreement). As a result, there can be no assurance that payments will be made under the license agreements as expected or that the Funds will have adequate remedies if such payments are not made.

License agreements may be terminated unilaterally by the Licensor under a variety of circumstances, which would result in the elimination of royalties due to the issuer from the Licensor under a license agreement. Such circumstances may include bankruptcy or insolvency of the Licensor company of the issuer or a breach of the license agreement by either party. Because the Funds do not control either the Licensor or Licensee, there is a risk that either party may breach one or more license agreements, and that payments to the Funds arising from such licenses would cease.

Risks Associated with Terms of the Royalty Interests Acquisition Agreements

Certain sellers of royalty interests such as inventors, universities and research institutions have limited business experience and little or no familiarity with the customary representations and warranties obtained in sales of assets such as royalty interests. Such representations and warranties can involve confirmations regarding the existence, validity and scope of patent coverage pertaining to royalty interests. Others concern title and ownership and whether other claimants or potential claimants to the royalty interests exist. In some cases, the seller's sponsoring university or research institution may have had responsibility for processing patent applications and documenting royalty agreements. As a result, the seller may not be in a position to make certain representations with respect to royalty interests. In addition, there is often little or no incentive for their sponsoring institutions to provide any assurances to the Adviser, the investor or the seller regarding the royalty interests being sold. There can be no assurance that the Adviser/general partner will be able to obtain customary representations and warranties or to otherwise manage risks associated with the acquisition of intellectual property or related license rights.

Risks Associated with Finite Terms

The rights to receive the payments in respect of royalty streams have limited terms that are generally not subject to extension. Following the expiration of the patent, or the termination of the license or the contractual right to receive payments under any agreement pursuant to which the Funds have the right to receive payments in respect of royalty streams, the Funds will not receive any revenue related to the sale of the related Target Product even if the Target Product continues to be sold.

Risks Associated with FDA Approval

Certain investments may not obtain FDA approval or similar regulatory approval in another country for their intended indication. If this were to occur, the product or products that support such investment would be unlikely to generate significant revenue, if any. If this were to occur, the Fund may not recoup its original investment and may realize a loss in the entire principal amount of the investment. Unapproved products are not an area of investment focus for the Adviser.

For a complete discussion of risks related to investing in particular Funds and in private equity funds in general interested clients should consult the offering documents for the specific investment Fund of interest.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of the adviser or the integrity of the adviser's management. The advisory firm must disclose legal and disciplinary events that the firm or any management person has been involved in for a period ten years following the event. The Adviser has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Registered investment advisers must disclose business relationships and/or activities that may create a conflict of interest, such as broker-dealer arrangements and commodity trading or affiliation with financial planners, banks, consultants or other advisers from whom the Adviser will receive compensation. The Adviser does not believe that its management of the Funds and client accounts described in Item 4 create a conflict of interest. In addition, the Adviser maintains a policy described in Item 11 to address any actual or potential conflicts of interest.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

The Adviser has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its advisory clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at the Adviser must acknowledge the terms of the Code of Ethics annually, or as amended.

The Adviser anticipates that, in appropriate circumstances, consistent with investment objectives of the Funds, it will cause the Funds over which it has management authority to effect, and will recommend to investment advisory clients the purchase or sale of Fund interests in which the Adviser, its affiliates and/or clients, directly or indirectly, have a position or interest. In such circumstances, the Adviser's employees and persons associated with the Adviser are required to follow the Adviser's Code of Ethics. Officers, directors and employees of the Adviser and its affiliates are prohibited from investing in any security or debt instrument in which any Fund has invested or those in which an investment is contemplated, except as provided in employment contracts and Partnership Agreements or otherwise disclosed to Fund investors. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with making decisions in the best interest of advisory clients.

In addition, the Code requires pre-clearance of many transactions, and restricts trading in certain securities. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between the Adviser and its clients. The Adviser personnel who violate the Code of Ethics may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, demotion, suspension or dismissal. The Adviser personnel are required to annually certify compliance with the Code of Ethics. Prospective clients may request a copy of the Adviser's Code of Ethics by contacting the Chief Compliance Officer (email: info@capitalroyalty.com).

Participation or Interest in Client Transactions

The Adviser and certain employees and affiliates of the Adviser may invest in and alongside the Funds, either through the general partners, as direct investors in the Funds or

otherwise. A Fund or its general partner, as applicable, may reduce all or a portion of the Management Fee and Incentive Fee related to investments held by such persons. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see “Conflicts of Interest” immediately below.

Conflicts of Interest

The Adviser and its related entities engage in a broad range of activities, including investment activities for their own account and for the account of other investment Funds, and providing transaction-related, investment advisory, management and other services to Funds and operating companies. In the ordinary course of conducting its activities, the interests of a Fund may conflict with the interests of the Adviser, other Funds or their respective affiliates. Certain of these conflicts of interest, as well as a description of how the Adviser addresses such conflicts of interest, can be found below.

Allocation of Investment Opportunities Among Clients and Allocation of Co-Investment Opportunities

In connection with its investment activities, the Adviser may encounter situations in which it must determine how to allocate investment opportunities among various clients and other persons, which may include, but are not limited to, the following:

- The Adviser’s Funds and Funds advised by its affiliates;
- Any parallel investment entities that have been formed to invest side-by-side with one or more of the Funds (either in all transactions entered into by such Fund(s) or in a limited subset of such investments), which may include, but are not limited to, parallel investment entities formed to facilitate investments by certain foreign or tax-exempt persons or business associates;
- Any Alternative Investment Vehicles that have been formed to address, for example, specific tax, legal, business, accounting or regulatory-related matters that may arise in connection with a transaction or transactions;
- Any Co-Investment Vehicles that have been formed to invest side-by-side with one or more Funds in particular transactions entered into by such Fund(s) (the investors in such Co-Investment Vehicles may include individuals and entities that are also investors in one or more Funds (“Adviser Investors”) and/or individuals and entities that are not investors in any Funds (“Third Parties”));
- Adviser Investors and/or Third Parties that wish to make direct investments (i.e., not through an investment vehicle) side-by-side with one or more Funds in particular transactions entered into by such Fund(s).

In recognition of its fiduciary duties, it is the policy of the Adviser to treat the investment Funds fairly and equitably in the allocation of investment opportunities and transactions more generally. The Adviser has adopted written policies and procedures relating to the allocation of investment opportunities, and will make allocation determinations consistently therewith. Such policies and procedures are detailed in the Advisory Agreement, Partnership Agreement and/or offering documents for the particular investment. The Adviser will only make investments in accordance with the terms of these documents.

The Funds are subject to investment allocation requirements (collectively, “Investment Allocation Requirements”). Investment Allocation Requirements may be set forth in the instrument under which the Fund was established (such as a Fund’s Partnership Agreement or offering documents), or in side letters. To the extent the Investment Allocation Requirements of a Fund do not include specific allocation procedures and/or allow the Adviser discretion in making allocation decisions among the Funds, the Adviser will follow the process set forth below.

The Adviser must first determine which Funds will participate in an investment opportunity. The Adviser assesses whether an investment opportunity is appropriate for a particular Fund(s), based on the Fund’s investment objectives, strategies and structure. A Fund’s investment objectives, strategies and structure typically are reflected in the Fund’s offering documents and organizational documents. Prior to making any allocation to a Fund of an investment opportunity, the Adviser determines what additional factors may restrict or limit the offering of an investment opportunity to the Fund(s). Possible restrictions include, but are not limited to:

- **Obligation to Offer:** The Adviser may be required to offer an investment opportunity to one or more Funds. This obligation to offer investment opportunities may be set forth in a Fund’s offering documents and/or operating agreement.
- **Related Investments:** The Adviser may offer an investment opportunity related to an investment previously made by a Fund(s) to such Fund(s) at the exclusion of, or resulting in a limited offering to, other Funds.
- **Legal and Regulatory Exclusions:** The Adviser may determine that certain Funds or investors in such Funds should be excluded from an allocation due to specific legal, regulatory and contractual restrictions placed on the participation of such persons in certain types of investment opportunities.

Once the Funds that will participate in a particular investment have been identified, the Adviser, in its discretion, decides how to allocate such investment opportunity among the identified Funds. In allocating such investment opportunity, the Adviser may consider some or all of a wide range of factors, which may include, but are not limited to, the following:

- Each Fund's investment objectives and investment focus;
- Transaction sourcing;
- Each Fund's liquidity and reserves;
- Each Fund's diversification;
- Lender covenants and other limitations;
- Amount of capital available for investment by each Fund as well as each Fund's projected future capacity for investment;
- Each Fund's targeted rate of return;
- Stage of development of the prospective portfolio company or other investment;
- Composition of each Fund's portfolio;
- The suitability as a follow-on investment for a current portfolio company of a Fund;
- The availability of other suitable investments for each Fund;
- Risk considerations;
- Cash flow considerations;
- Asset class restrictions;
- Industry and other allocation targets;
- Minimum and maximum investment size requirements;
- Tax implications;
- Legal, contractual or regulatory constraints;
- Vintage year of Fund/account; and
- Any other relevant limitations imposed by or conditions set forth in the applicable offering and organizational documents of each Fund.

The Adviser will seek to make all allocations of investment opportunities among the Funds in a fair and equitable manner, and will not favor or disfavor, consistently or consciously, any Fund or class of Funds in relation to any other Funds. Further, the Adviser will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or amount of fees paid by any Fund, (ii) the profitability of any Fund or (iii) any

person's interest in offering or participating in co-investment opportunities outside of any Fund.

Subject to any Investment Allocation Requirements, in general, (i) no investor in a Fund has a right to participate in any co-investment opportunity, (ii) decisions, in the sole discretion of the Adviser, regarding whether and to whom to offer co-investment opportunities are made, (iii) co-investment opportunities may, and typically will, be offered to some and not other investors in the Funds, and (iv) certain persons other than investors in the Funds (e.g., Third Parties) may be offered co-investment opportunities.

In exercising its discretion to allocate co-investment opportunities among the Funds and other persons, the Adviser may consider some or all of a wide range of factors, which may include, but are not limited to, the following:

- The Adviser's evaluation of the size and financial resources of the potential co-investment party and the Adviser's perception of the ability of that potential co-investment party (in terms of, for example, staffing, expertise and other resources) to efficiently and expeditiously participate in the investment opportunity with the relevant Fund(s) without harming or otherwise prejudicing such Fund(s), in particular when the investment opportunity is time-sensitive in nature, as is typically the case;
- Any confidentiality concerns the Adviser may have that may arise in connection with providing the other account or person with specific information relating to the investment opportunity in order to permit such potential co-investment party to evaluate the investment opportunity;
- The Adviser's perception of its past experiences and relationships with the potential co-investment party, such as the willingness or ability of the potential co-investment party to respond promptly and/or affirmatively to potential investment opportunities previously offered by the Adviser;
- The Adviser's perception of whether the investment opportunity may subject the potential co-investment party to legal, regulatory, reporting, public relations, media or other burdens that make it less likely that the other account or person would act upon the investment opportunity if offered; and
- The Adviser's evaluation of whether the profile or characteristics of the potential co-investment party may have an impact on the viability or terms of the proposed investment opportunity and the ability of the Funds to take advantage of such opportunity (for example, if the potential co-investment party is involved in the same industry as a target company in which a Fund wishes to invest, or if

the identity of the potential co-investment party, or the jurisdiction in which the potential co-investment party is based, may affect the likelihood of a Fund being able to capitalize on a potential investment opportunity).

The Adviser's exercise of its discretion in allocating investment opportunities among the persons, including the Funds, the Adviser Investors and Third Parties, in the manner discussed above may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to other such persons. The Adviser will determine how to allocate investment opportunities using its best judgment, considering such factors as it deems relevant. There can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made will be as favorable as they would be if the conflicts of interest to which the Adviser may be subject, discussed herein, did not exist.

In exercising its discretion to allocate investment opportunities and fees and expenses, the Adviser may be faced with a variety of potential conflicts of interest. For example, in allocating an investment opportunity among Funds with differing fee, expense and compensation structures, the Adviser may have an incentive to allocate investment opportunities to the Funds from which the Adviser or its related persons may derive, directly or indirectly, a higher fee, compensation or other benefit.

In addition, principal executive officers and other personnel of the Adviser invest indirectly in and may be permitted to invest directly in Funds and will therefore participate indirectly in investments made by the Funds in which they invest. Such interests will vary Fund by Fund. The existence of these varying circumstances may present conflicts of interest in determining how much, if any, of certain investment opportunities to offer to a Fund.

Conflicts Related to Purchases and Sales

A Fund may invest in opportunities that other Funds or clients of the Adviser's affiliate have declined, and likewise, a Fund may decline to invest in opportunities in which other Funds or clients of the Adviser's affiliate have invested.

Cross-Transactions

In certain cases, the Adviser may cause a Fund to purchase investments from another Fund, or it may cause a Fund to sell investments to another Fund. Such transactions create conflicts of interest because, by not exposing such buy and sell transactions to the market forces, a Fund may not receive the best price otherwise possible, or the Adviser might seek to prop up the performance of one Fund by selling underperforming assets to another Fund in order, for example, to earn fees. Additionally, in connection with such transactions, the

Adviser, its affiliates and/or their professionals (i) may have significant investments or intentions to invest in the Fund that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment (such as through certain other participations in the underlying investment). The Adviser may receive management or other fees in connection with their management of the relevant Funds involved in such a transaction, and may also be entitled to share in the investment profits of the relevant Funds. To address these conflicts of interest, in connection with effecting such transactions, the Adviser will follow the Investment Allocation Requirements of the relevant Funds.

The Adviser undertakes to resolve conflicts on a fair and equitable basis, which in some instances may mean a resolution that would not maximize the benefit to the Fund's investors. It is the policy of the Adviser to allocate investment opportunities fairly and equitably over time. This means that such opportunities will be allocated among those accounts for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations (i) whether the risk-return profile of the proposed investment is consistent with the account's objectives and program, whether such objectives are considered in light of the specific investment under consideration or in the context of the portfolio's overall holdings; (ii) the potential for the proposed investment to create an imbalance in the account's portfolio (taking into account expected inflows and outflows of capital); (iii) liquidity requirements of the account; (iv) potentially adverse tax consequences; (v) regulatory and other restrictions that would or could limit an account's ability to participate in a proposed investment; and (vi) the need to reduce risk in the account's portfolio.

From time to time, the Adviser may acquire investments or other financial instruments of an issuer for the Fund which are senior or junior to investments or financial instruments of the same issuer that are held by, or acquired for, one or more accounts (e.g., the Fund may acquire senior debt while one or more accounts may acquire subordinated debt, or another account may make an equity investment in a biopharmaceutical company and the Fund may subsequently invest in a royalty monetization related to a royalty stream from such company). The Adviser recognizes that conflicts may arise under such circumstances. If practicable, the Adviser may attempt to create pro rata exposure (based on assets under management, capacity constraints or any other factors deemed relevant by the Adviser) of the relevant Funds and accounts to the conflicting investments. In such a case, when conflicts arise, the relevant portfolio managers or the Adviser will attempt to determine which of the "conflicting investments" has the highest profitability potential (such investment, the "Preferred Investment"), taking into account such considerations as size of positions, the risk/reward profile and likelihood of success of a particular course of action.

Once the Preferred Investment is determined, the Adviser will take actions which seek to maximize value. Such actions could possibly be adverse to other investments held by the Fund or accounts. To lessen any adverse impact resulting from such action, the Adviser may seek to sell in a commercially reasonable manner the non-Preferred Investments. Alternatively, a determination may be made that an immediate sale would result in a lower return on the non-Preferred Investment than would be the case if the investment remained in the portfolio, in which case the Adviser would maintain the position. There can be no guarantee, however, that continuing to hold a non-Preferred Investment will not result in greater losses than would have resulted had the investment been sold. If multiple clients invest in the same transaction or have exposure to an issuer through different transactions, those clients may have conflicting interests and objectives, which could result in an action taken by the Adviser on behalf of one client disadvantaging another client.

The Adviser may cause the Fund to engage in “cross-trades” with one or more accounts, typically for purposes of rebalancing the portfolios of the Fund and such accounts in order to further the Fund’s and such accounts’ respective investment programs, or for other reasons consistent with the investment and operating guidelines of the Fund and such accounts. The value of any positions that are so cross-traded will be determined in a manner that is consistent with the valuation policies used by the Adviser. In some cases, the Adviser may seek the approval of an independent third party (including an advisory committee) for such trade.

Principal Transactions

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a “principal transaction”), the Adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client’s consent to the transaction. In connection with the Adviser’s management of the Funds, the Adviser and its affiliates may engage in principal transactions. The Adviser has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to the applicable Fund(s) regarding any proposed principal transactions and that any required prior consent to the transaction be received. In addition, the offering documents, Partnership Agreements or other organizational documents and related documents relating to the Funds generally contain additional restrictions on the ability of the Funds or the Adviser to engage in principal transactions.

Management of the Funds

The Adviser manages a number of Funds that may have investment objectives similar to each other. The Adviser may in the future establish one or more additional investment Funds with investment objectives substantially similar to, or different from, those of the current Funds. Allocation of available investment opportunities between the Funds and any such investment Fund could give rise to conflicts of interest. See “Allocation of Investment Opportunities Among Clients and Allocation of Co-Investment Opportunities” above. In addition, it is expected that employees of the Adviser responsible for managing a particular Fund will have responsibilities with respect to other Funds managed by the Adviser, including Funds that may be raised in the future. Conflicts of interest may arise in allocating time, services or functions of these officers and employees.

Follow-on Investments

Investments to finance follow-on investments may present conflicts of interest, including determination of the equity component and other terms of the new financing as well as the allocation of the investment opportunities in the case of follow-on acquisitions by one Fund in an interest or partnership in which another Fund has previously invested. In addition, a Fund may participate in re-leveraging and recapitalization transactions involving partnerships in which another Fund has already invested or will invest. Conflicts of interest may arise, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the interests with terms that are more or less favorable than the prevailing market terms.

Conflicts Relating to the General Partner and The Adviser

The Adviser, its affiliates, and officers, principals and employees of the Adviser and its affiliates may buy or sell securities or other instruments that the Adviser has recommended to Funds. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by Funds. Such transactions are subject to the policies and procedures set forth in the Adviser’s Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments may vary from those of the Funds. If officers, principals and employees of the Adviser have made large capital investments in or alongside the Funds they may have conflicting interests with respect to these investments. In addition, the Adviser may have an incentive to allocate favorable transactions towards its affiliates.

Fee Structure

Because there is a fixed investment period after which capital from investors in the Funds may only be drawn down in limited circumstances and because Management Fees are, at certain times during the life of the Funds, based upon capital invested by the Funds, this fee structure may create an incentive to deploy capital when the Adviser may not otherwise have done so.

Additionally, as discussed above in Item 6, the general partners of the Funds are entitled to Incentive Fees under the terms of the Partnership Agreements of such Funds. Such general partners are affiliates of the Adviser. The existence of the general partners' Incentive Fees may create an incentive for the general partners to cause such Funds to make more speculative investments than they would otherwise make in the absence of performance-based compensation.

Positions with Affiliates of Investments Held by Accounts

Employees of the Adviser may serve as directors of affiliates of investments. Such employees are generally required to transfer any remuneration they may receive as directors to the applicable Funds. In addition, employees of the Adviser may leave the employment of the Adviser or its affiliates and become an officer or employee of an investment. Employees are prohibited from receiving consulting, management or other fees personally from investments.

Side Letter Agreements

The Adviser may enter into certain side letter arrangements with investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

Other Potential Conflicts

The Adviser and the Funds will generally engage common legal counsel and other advisers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms engaged to represent the Funds may be investors in a Fund, and may also represent one or more portfolio investments or investors in a Fund. In the event of a significant dispute or divergence of interest between Funds, the Adviser and/or its affiliates, the parties may engage separate counsel, and in litigation and other circumstances separate representation may be required.

The Adviser may, in its discretion, have, and may cause the Funds and/or their portfolio investments to have, ongoing business dealings, arrangements or agreements with persons who are former employees or executives of the Adviser. The Funds and/or their portfolio investments may bear, directly or indirectly, the costs of such dealings, arrangements or agreements. In such circumstances, there may be a conflict of interest between the Adviser and the Funds (or their portfolio investments) in determining whether to engage in or to continue such dealings, arrangements or agreements, including the possibility that the Adviser may favor the engagement or continued engagement of such persons even if a better price and/or quality of service could be obtained from another person.

A Fund may invest in a pooled investment vehicle that is advised by, or that has another business or other relationship with, the Adviser or its related persons. In such a case, investors in such Fund will bear not only the direct Management Fees and other expenses associated with their investment in the Fund, but also the expenses and fees associated with the investment in the underlying pooled investment vehicle, some of which fees and expenses may be paid to the Adviser or its related persons. Additionally, the interests of the Fund, as an investor, may conflict with the interests of the underlying pooled investment vehicle or the Adviser or its related persons in their capacity as service providers to the underlying pooled investment vehicle, which would create a conflict of interest for the Adviser.

In resolving these and other conflicts, the Adviser may consider various factors, including the interests of the applicable Funds with respect to the immediate issue and/or with respect to their longer term courses of dealing. In the case of all conflicts involving the Funds or other persons, the Adviser's determination is final as to which factors are relevant, and the resolution of such conflicts.

Resolution of Conflicts

The Adviser and its affiliates will deal with all conflicts of interest using its best judgment. Certain procedures for resolving specific conflicts of interest are set forth below, however, the Adviser will not necessarily follow such procedures in any particular case. When conflicts arise, the following factors may mitigate, but will not eliminate, conflicts of interest:

- A Fund will not make an investment unless the Adviser believes that such investment is an appropriate investment considered solely from the viewpoint of such Fund;
- Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the relevant offering documents

and/or organizational documents for the Funds, such as the Advisory Agreement or Partnership Agreement;

- Generally, each Fund has established an advisory committee, consisting of representatives of investors not affiliated with the Adviser. The advisory committees meet as required to consult with the Adviser as to certain potential conflicts of interest. On any issue involving actual conflicts of interest, the Adviser will be guided by its good faith discretion;
- Where the Adviser deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price.

Prior to subscribing for interests in a Fund (except for a Co-Investment Vehicle or an Alternative Investment Vehicle), each investor receives the offering documents containing detailed information relating to significant potential conflicts of interest arising from the proposed activities of the Fund.

Item 12 – Brokerage Practices

The Adviser, in most circumstances, determines which investments are bought or sold by the Funds and client accounts. The Adviser selects broker-dealers to effect any transactions by the Funds and client accounts and the commission rates to be paid. The factors used in selecting brokers are the price of the securities, commission rates, general expertise and the ability to effect an execution in a timely and cost-effective manner. Research and other benefits may be received by the Adviser as a result of effecting securities transactions and these benefits will be considered when determining which broker-dealers to use. The Adviser has adopted written policies to address issues that might arise with respect to purchasing and selling investments in brokered transactions.

Item 13 – Review of Accounts

The Adviser reviews accounts of the Funds quarterly and the financial position of each investor in the Funds is determined by the Accounting Manager. The accounts are reviewed by the Chief Financial Officer and the Managing Directors and/or the Investment Committee. Account activity and balances are prepared by the Accounting Manager and reviewed by the Chief Financial Officer. For separately managed accounts, the client receives a detailed confirmation at the time of the transaction from the Managing Directors

and/or the Chief Financial Officer. Account positions are reviewed with the client on a periodic basis. Detailed account information is also available to each client on the internet in an individual password-protected section of the Adviser's website.

The investors in the Funds receive financial statements and a written update on investments quarterly and audited financial statements and a written update on investments annually.

Item 14 – Client Referrals and Other Compensation

The Adviser uses the services of placement agents, to sell interests in the Funds and may use a placement agent in the future to sell any other investment vehicles organized by related parties. The placement agent is compensated for the services provided in accordance with an agency contract. Such agents generally will receive a fee in an amount equal to a percentage of the capital commitments for interests made by such potential investors in the Fund in which they subsequently invest. Such fees are generally paid by the Adviser.

Item 15 – Custody

Most investors in the Funds are not clients of the Adviser, and will not receive custody statements from the Fund's custodian. Instead, they receive the Fund's quarterly and annual financial statements referred to above. With respect to the Adviser's clients, clients should receive quarterly and annual statements from the bank or other qualified custodian that holds and maintains client's investment assets. The Adviser urges you to carefully review the account statements you receive from the qualified custodian and compare these records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Clients are urged to contact the Adviser if there is any question about account statements.

Item 16 – Investment Discretion

The Adviser receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives and the terms and conditions of the relevant Fund's Partnership

Agreement. When selecting securities and determining amounts, the Adviser observes the investment policies, limitations and restrictions of the clients for which it advises.

Item 17 – Voting Client Securities

The Adviser has established written policies and procedures setting forth the principles and procedures by which the Adviser votes or gives consent with respect to securities owned by the Funds (the “Votes”). The guiding principle by which the Adviser votes all Votes is to vote in the best interests of each Fund by maximizing the economic value of the relevant Fund’s holdings, taking into account the relevant Fund’s investment horizon, the contractual obligations under the relevant Advisory Agreements or comparable documents, and all other relevant facts and circumstances at the time of the vote. The Adviser does not permit voting decisions to be influenced in any manner that is contrary to, or dilutive of, this guiding principle.

It is the Adviser’s general policy to vote or give consent on all matters presented to security holders in any Vote. However, the Adviser reserves the right to abstain on any particular Vote or otherwise withhold its vote or consent on any matter if, in the judgment of the General Counsel or the relevant investment professional, the costs associated with voting such Vote outweigh the benefits to the relevant Funds or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Funds.

Funds generally cannot direct the Adviser’s Vote in a particular solicitation.

All voting decisions initially are referred to the General Counsel or appropriate investment professional for a voting decision. In most cases, the General Counsel or investment professional covering the particular investment will make the decision as to the appropriate vote for any particular Vote. In making such decision, he or she may rely on any of the information and/or research available to him or her. If the investment professional is making the voting decision, the investment professional will inform the General Counsel of any such voting decision, and if the General Counsel does not object to such decision as a result of his or her conflict of interest review, the Vote will be voted in such manner. If the investment professional and the General Counsel are unable to arrive at an agreement as to how to vote, then the General Counsel may consult with the Adviser’s investment committee as to the appropriate vote, who will then review the issues and arrive at a decision based on the overriding principle of seeking the maximization of the economic value of the relevant Funds’ holdings.

The Chief Compliance Officer has the responsibility to monitor Votes for any conflicts of interest, regardless of whether they are actual or perceived. All voting decisions will require a mandatory conflicts of interest review by the Chief Compliance Officer or General Counsel in

accordance with these policies and procedures, which will include consideration of whether the Adviser or any investment professional or other person recommending how to vote and/or the Adviser's affiliates and their clients has an interest in how the Vote is voted that may present a conflict of interest. In addition, the Adviser's investment professionals are expected to perform their tasks relating to the voting of Votes in accordance with the principles set forth above, according the first priority to the best interest of the relevant Funds. The Chief Compliance Officer or General Counsel will use his or her best judgment to address any such conflict of interest and ensure that it is resolved in accordance with his or her independent assessment of the best interests of the Funds.

Where the Chief Compliance Officer deems appropriate, unaffiliated third parties may be used to help resolve conflicts. In this regard, the Chief Compliance Officer shall have the power to retain independent fiduciaries, consultants, or professionals to assist with voting decisions and/or to delegate voting or consent powers to such fiduciaries, consultants or professionals.

Copies of relevant proxy logs, identifying how proxies were voted in connection with a Fund and copies of proxy voting policies are available to any client or prospective client upon written request to the Adviser at the address on the cover page or email to info@capitalroyalty.com. A copy of the Adviser's proxy voting policies and procedures may be obtained upon request by emailing info@capitalroyalty.com.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about the adviser's financial condition. The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.